

VZCZCXRO0590  
RR RUEHFK RUEHGH RUEHKSO RUEHNH  
DE RUEHKO #1025/01 0680806  
ZNY CCCCC ZZH  
R 090806Z MAR 07  
FM AMEMBASSY TOKYO  
TO RUEHC/SECSTATE WASHDC 1424  
INFO RUEHBJ/AMEMBASSY BEIJING 6064  
RUEHMO/AMEMBASSY MOSCOW 1541  
RUEHNE/AMEMBASSY NEW DELHI 8297  
RUEHFR/AMEMBASSY PARIS 5345  
RUEHUL/AMEMBASSY SEOUL 2154  
RUEHFK/AMCONSUL FUKUOKA 0143  
RUEHGZ/AMCONSUL GUANGZHOU 1293  
RUEHNH/AMCONSUL NAHA 2618  
RUEHOK/AMCONSUL OSAKA KOBE 3643  
RUEHKSO/AMCONSUL SAPPORO 1105  
RUEHGH/AMCONSUL SHANGHAI 0125  
RUEHSH/AMCONSUL SHENYANG 0455  
RHMCSUU/DEPT OF ENERGY WASHINGTON DC  
RUEHIN/AIT TAIPEI 6344

C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 001025

SIPDIS

SIPDIS

PARIS FOR USOECD. DOE PLEASE PASS TO DOE/PI: DPUMPHREY,  
JNAKANO.

E.O. 12958: DECL: 03/07/2017

TAGS: [PREL](#) [PGOV](#) [ENRG](#) [ECON](#) [JA](#) [CH](#) [RU](#)

SUBJECT: ANRE PETROLEUM AND NATURAL GAS DIRECTOR GIVES  
RUSSIA VISIT A GRADE "B," COMMENTS ON EAST CHINA SEA

Classified By: Ambassador J. Thomas Schieffer for reasons 1.4 (b,d)

11. (C) Summary. In a meeting on March 2 Agency for Natural Resources and Energy (ANRE) Petroleum and Natural Gas Division Director Shin Hosaka expressed only partial satisfaction with discussions between Japan and Russia that took place in late February. He appreciated assurances from Russian Prime Minister Mikhail Fradkov and Energy Minister Viktor Khristenko that the oil pipeline from Eastern Siberia to the Pacific Ocean would be built but Hosaka expressed doubt over whether there was ample supply to fill it. Hosaka noted that the upcoming environmental inspection of Sakhalin 1 was unsurprising because it was scheduled in autumn 2006, and he dismissed press speculation that Sakhalin 1 would convert its natural gas using Sakhalin 2's facilities. He acknowledged that the Japanese government was torn between realizing profits from the Sakhalin 1 project and securing liquefied natural gas (LNG) for Japanese consumers. Hosaka denied press articles claiming a new Japanese proposal on the East China Sea dispute but acknowledged that a Japan-China director general-level meeting is likely to occur in Tokyo toward the end of March. Hosaka also believes Prime Minister Abe will visit Yasukuni Shrine in August which would complicate the East China Sea discussions. End summary.

Japan-Russia Meetings in Tokyo  
-----

12. (C) Agency for Natural Resources and Energy (ANRE) Petroleum and Natural Gas Division Director Shin Hosaka gave the end of February energy talks between Japan and Russia a grade of "B to B-" during a meeting on March 2, confessing that he was only about 50 percent satisfied with the results. Hosaka appreciated that Russian Energy Minister Viktor Khristenko had said Phase 2 of the Pacific pipeline would be built from Eastern Siberia to the Pacific Coast but he cautioned that so far insufficient supplies of oil have been located in Eastern Siberia to fill both Phase 1's pipeline to China and a pipeline to the coast. Hosaka also argued that ultimately Russian President Vladimir Putin will decide whether the pipeline reaches the Pacific. Nevertheless, Khristenko and Prime Minister Mikhail Fradkov promised they

would continue to support the Pacific pipeline and have asked the Japanese to participate in the project, according to Hosaka.

#### Sakhalin

3.(C) Hosaka commented on recent press articles about upcoming environmental inspections of ExxonMobil-led Sakhalin 1, saying that the assessments were announced last fall and therefore were expected. He expressed confidence that the Sakhalin 1 project would pass the environment inspections. Hosaka also dismissed speculation that the Russian government would try to intervene in the Sakhalin 1 project the way it has in the Sakhalin 2 project.

14. (C) Hosaka denied press reports that the Russian government is going to seek to convert Sakhalin 1's natural gas into liquefied natural gas (LNG) at Gazprom's Sakhalin 2. He explained that because the project is under a profit-sharing agreement (PSA), it is out of the Russian government's reach and was not a topic of discussion during the Japan-Russia meetings. Hosaka also indicated that had the topic been raised, it might have invited unwelcome GOR involvement, hence METI Minister Amari's decision not to broach the subject with Minister Khristenko.

5.(C) Hosaka agreed that like Japan, India is anxious to see Sakhalin 1's gas liquefied, but he believes it will not happen, despite the combined 50 percent Japan-India ownership in Sakhalin 1. Referring to ExxonMobil as the "Darth Vader" of the energy world, Hosaka explained that the US oil major

TOKYO 00001025 002.2 OF 002

was strong enough to do things its way. (Note: this Star Wars nickname also was used during Embassy meetings with Mitsui & Co., indicating a broad use of the term.) ExxonMobil continues to express confidence in a gas pipeline from Sakhalin to China, according to Hosaka. Refusing to liquefy Sakhalin 1's natural gas makes for much greater profit margins, he observed, adding that the GOJ recognizes ExxonMobil's responsibility to maximize profits for its shareholders and the other Sakhalin 1 investors. (Note: the GOJ owns almost 50 percent of Inpex, a Japanese oil and gas company that is part of the Japanese consortium holding 30 percent of Sakhalin 1.) Hosaka noted that as a stakeholder in Sakhalin 1, the GOJ agrees with ExxonMobil's business decision but as a government agency charged with securing a stable energy supply for Japan, ANRE wants the LNG.

#### Natural Gas Shortage to 2010

16. (C) Hosaka noted that at present there is a shortage in the natural gas market but that a number of projects will come on line during 2010-13, most notably in Australia. Until then, it will be a suppliers market.

#### East China Sea

17. (C) Asked about recent press covering a new GOJ proposal for joint development of oil and natural gas in the East China Sea, Hosaka emphasized that the articles were untrue. He said Ministry of Foreign Affairs (MOFA) Vice Minister Shotaro Yachi has not submitted any new proposal. MOFA has many contacts in China and various options and proposals have been submitted but nothing concrete has been offered, according to Hosaka. He confirmed press speculation that a director general-level meeting would take place in the latter half of March in Tokyo between China and Japan but reiterated that finding a solution to the problem would be very difficult. He affirmed that a January meeting on legal issues had resolved most of them but also confirmed that an

experts meeting on technical issues has yet to be scheduled because of differences over determining the East China Sea border between the two countries.

18. (C) Hosaka commented that in his opinion, August could be a crucial month for the East China Sea issue because August 15 is the anniversary of Japan's official surrender in WWII. Hosaka speculated that Prime Minister Shinzo Abe might visit the Yasukuni Shrine and this action would severely and negatively affect the East China Sea discussions.  
SCHIEFFER